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Incentive Marketing

INCORPORATING INCENTIVE TRAVEL

OCTOBER 1984

SALES INCENTIVES:

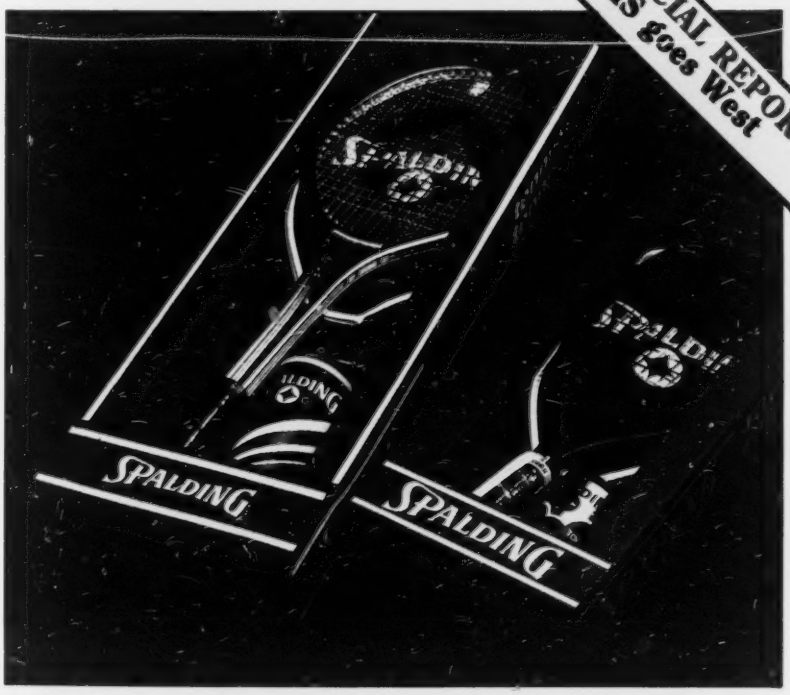
Battling the 'Blahs'

Inside: Exotic Arizona

INCENTIVE MARKETING

SPECIAL REPORT
NP/IS goes West

October 1984



Tennis racquets are among the many sporting goods that fit effectively into incentive programs. For story, see page 90.

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Battling the 'Blahs'

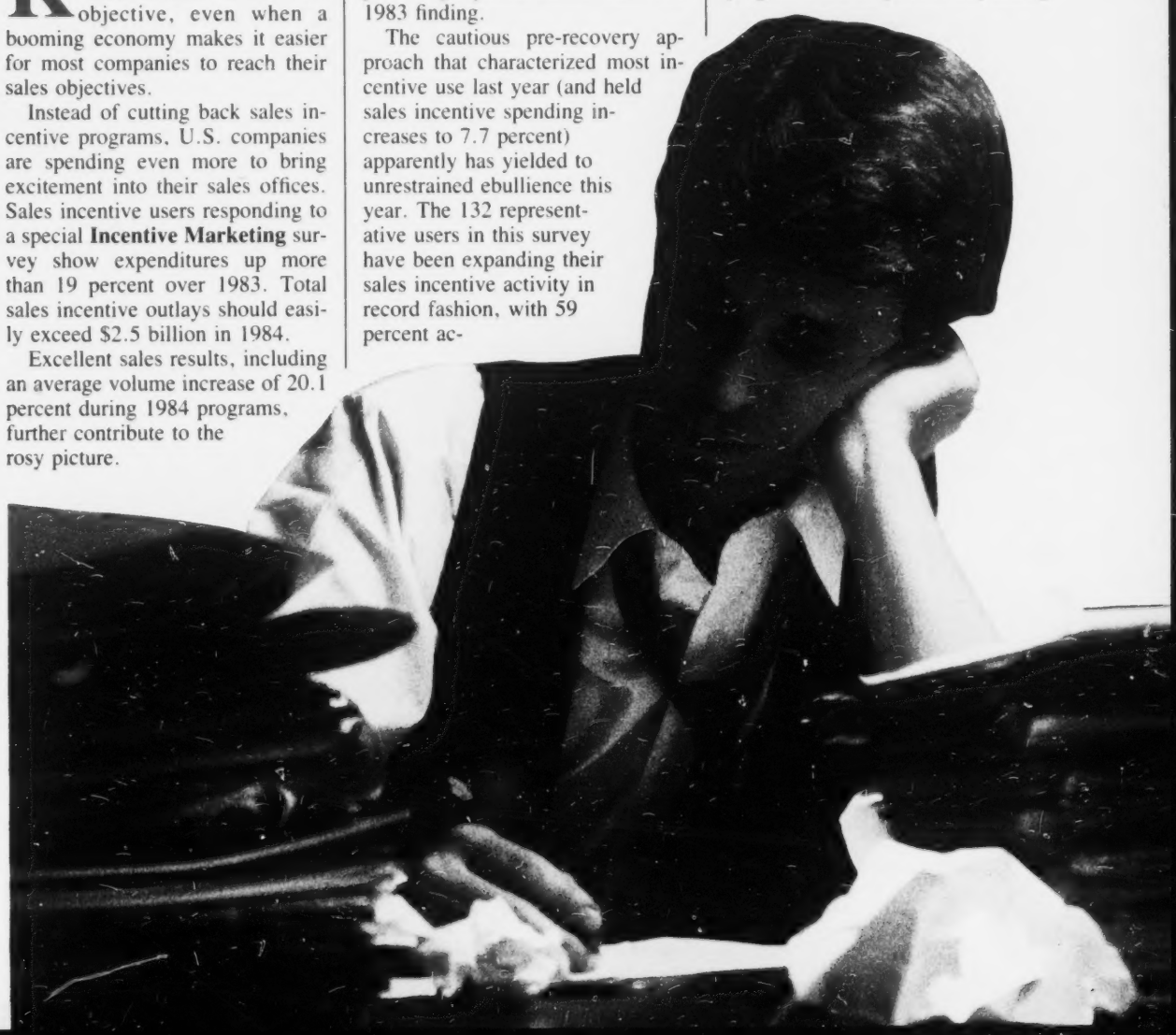
The strong recovery has encouraged companies to spend even more dollars to make sure their people *get out and sell.*

Keeping the sales force motivated remains a common objective, even when a booming economy makes it easier for most companies to reach their sales objectives.

Instead of cutting back sales incentive programs, U.S. companies are spending even more to bring excitement into their sales offices. Sales incentive users responding to a special **Incentive Marketing** survey show expenditures up more than 19 percent over 1983. Total sales incentive outlays should easily exceed $2.5 billion in 1984.

Excellent sales results, including an average volume increase of 20.1 percent during 1984 programs, further contribute to the rosy picture. The average growth rate is three percentage points better than the 1983 finding.

The cautious pre-recovery approach that characterized most incentive use last year (and held sales incentive spending increases to 7.7 percent) apparently has yielded to unrestrained ebullience this year. The 132 representative users in this survey have been expanding their sales incentive activity in record fashion, with 59 percent accelerating merchandise incentive programs and 62 percent expanding



travel incentives. Although more travel users say they have increased usage, the dollar emphasis goes the other way—with merchandise volume up an estimated 21.1 percent and travel up 18.1 percent. The overall increase in dollar investment comes to 19.1 percent over what the same marketers spent in 1983.

Sales incentives, the largest segment of the field, accounted for an estimated $2,489,169,000 last year, about 76 percent of it for merchandise awards and 24 percent for travel campaigns.

Users direct sales force incentive programs to several types of salespeople, but internal employees dominate, according to 67 percent of those responding to this survey. Another 33 percent offer incentives to manufacturers' representatives or agents; 17 percent to wholesaler/jobber personnel; 16 percent to retailer salespeople; and only 2 percent to direct-selling representatives. As the figures suggest, many aim their efforts at more than one type of seller.

Incentive marketers have eyes on many objectives, but the overriding one is to increase total sales volume, as mentioned by 74 percent of these executives. Their second most important goal is introduction of new products, cited by 47 percent. Distribution management—"moving full line or slow items"—ranks third. A number of other objectives earn these users' attention—an average of about 2⅓ different goals per respondent. (See chart below.)

Although more survey respondents claim increased travel usage, they spend more money on merchandise.

The objective, however defined, is most often directed toward results on a company's full line of products or services; that is the practice of exactly half the respondents. For 39 percent, selected items get attention, while only 11 percent put their efforts behind a single product.

Campaign goals, once targeted, must be communicated to the sales force in ways that relate members' efforts to the desired end. This communication is most often achieved by assigning individual quotas, usually via a sales forecast.

Evaluating results is related to the quota issue. The favorite evaluation method is perhaps the simplest: 54 percent rate their success on total dollars or units sold during the campaign. Second choice, however, is the percentage of the sales force reaching quota, preferred by 42 percent. About 18 percent look for increased market share, and 17 percent count profit on incremental sales; 11 percent take what amounts to a team approach, basing judgment on branch or district sales office performance.

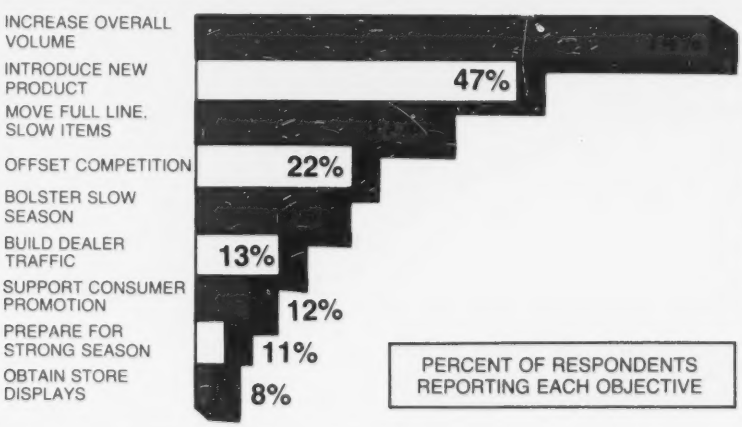
The comeback in sales figures is accompanied by an upturn in the level of qualification. The average percentage of salespeople earning awards had hovered around 48 percent to 50 percent for several years and dropped to only 39 percent in 1982. The present rate of 44 percent represents a 50 percent qualification in merchandise programs and 36 percent in travel campaigns.

Many companies provide for earning of minimum awards below full quota achievement and throw in a little extra for the over-achievers. More than half of the users surveyed say they require participants to reach 100 percent of quota before winning anything, but others give some credit at much lower levels. The overall average is 93 percent of quota for the first level of awards. Additional winnings are provided up to an average of 133 percent.

All of the industries that lead in sales incentive use are well represented in the latest survey, and there appears to be no significant variation in the reports. Practices remain similar in most cases, and the improved results are fairly uniform.

The top 10 sales incentive user industries have changed little in several years, and the latest total

SALES INCENTIVE OBJECTIVES



estimates, for 1983, show the same 10 in the same order as in the previous two years. (See chart, page 62.) But, in terms of total spending last year, they represent a bigger piece of the pie—59 percent of all dollar expenditures, compared with 55 percent a year earlier.

Insurance remains on top by a good margin, with 1983 sales incentive spending estimated at $262,472,000, $54 million ahead of the second user—the automotive aftermarket—and about 10.5 percent of the entire sales incentive field.

Last year's special survey concentrated on the insurance business, and found that its users:

- Achieved larger sales increases than the all-industry average.
- Relied more heavily on travel programs, accounting for 54 percent of their spending.
- Spent more for their trips, but qualified fewer people, and spent less than the all-industry average for merchandise awards.
- Incorporated much more educational and training time in trips.
- Leaned toward continuous, year-long campaigns with total sales objectives for its people.

For other industries, more frequent shorter programs remain the norm. Users of merchandise-only promotions continue to use a median of three per year, while travel users have a median of one. Companies conducting programs offering both merchandise and travel—more than 20 percent of respondents—show a median of two sales incentive programs each year.

Sales incentive users report an average volume growth of more than 20 percent during their campaigns.

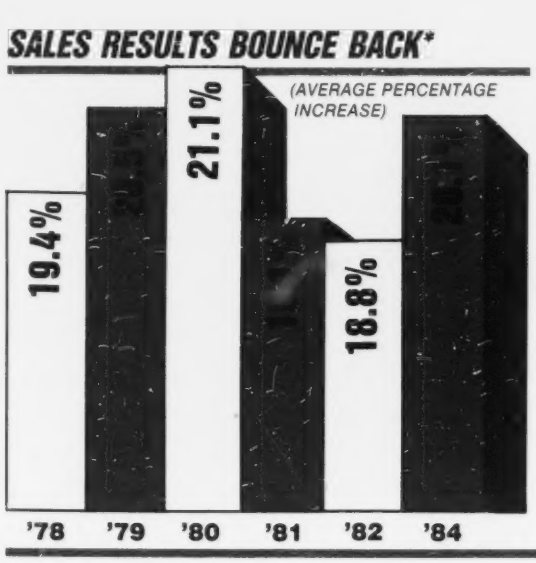
Since the last similar **IM** survey in 1982, the average travel campaign has become a bit longer—from 27 to 30 weeks' selling time—while merchandise promotions have curtailed from 17 weeks to 13 weeks.

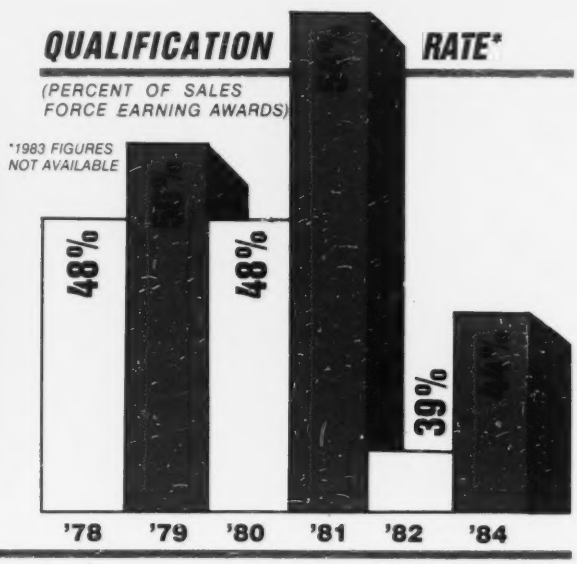
The time required to plan the typical sales incentive drive is close to the length of the program—32 weeks in the case of travel, and the same 13 weeks for merchandise offers.

The planning process includes many elements. Travel is somewhat more complex to set up—but both promotion types require advance time and effort to be successful. There are not only merchandise or trip arrangements to purchase, but promotional mailings to create, kickoff meetings to set up, gifts, advertising specialties and sometimes on-site meetings in a travel campaign. There is the question of administrative detail, assignment of responsibilities, standings reports and notification of winners. And there is the design of record systems that will provide accurate evaluation at the end of the promotion.

Preparation of the initial promotional materials, campaign rules and other information for the sales force is a vital task. And the portion of budget allocated to promotion may be quite large—up to 30 percent or more of the total program cost in some cases. Others allocate as little as 1 percent to these costs. On the average, users in this year's survey spend 11 percent of the program budget on promotional support.

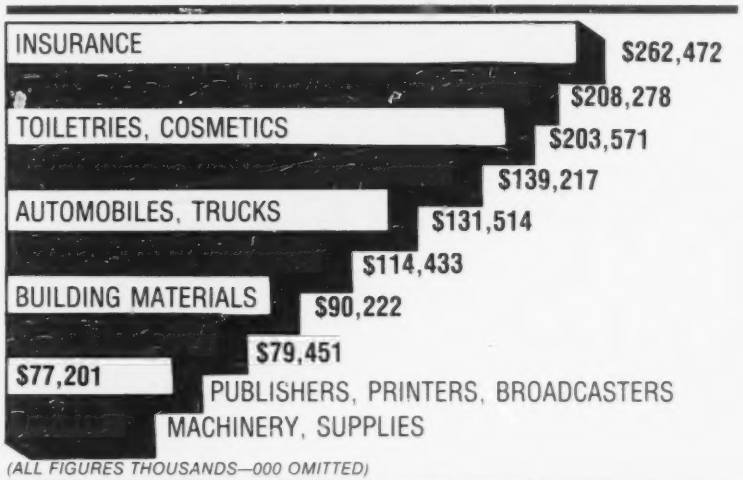
Determining the type of award to be offered is clearly one of the first essential steps. The largest





Insurance remains the top user industry for sales incentives; the automotive aftermarket ranks second.

TOP SALES INCENTIVE USERS, 1983



(ALL FIGURES THOUSANDS—000 OMITTED)

group of respondents (44 percent) prefers to use a single merchandise item or group of related items, while another 34 percent choose the variety of a merchandise catalog from an incentive firm. Eleven percent like to put together their own more limited catalogs or merchandise assortments. On the travel side, sales incentive users lean more to individual trip awards (32 percent), but group trips are close behind (30 percent). Many companies use more than one type of award, so the percentages add to more than 100 percent.

There are eight principal sources available to the incentive user, depending upon the nature of his program and other factors. Most popular are manufacturers, in the case of merchandise promotions. Travel users prefer to make their own arrangements, which also usually involves a local travel agency. Here is how they stacked up in the latest survey:

Merchandise

30% Direct from manufacturer
27% Wholesaler/premium jobber
24% Full-service incentive house
16% Manufacturers' rep

Travel

33% Make own arrangements
17% Full-service incentive house
14% Travel wholesaler
8% Travel carrier/hotel

Price tags on their purchases have not changed dramatically since the most recent IM survey two years ago. Merchandise award costs actually have declined slightly from the earlier figures. This year's reports average $232 with a median of $100; the previous study found the average at $246, but the median $117. Travel costs have increased by $100 in the averages—from $1,564

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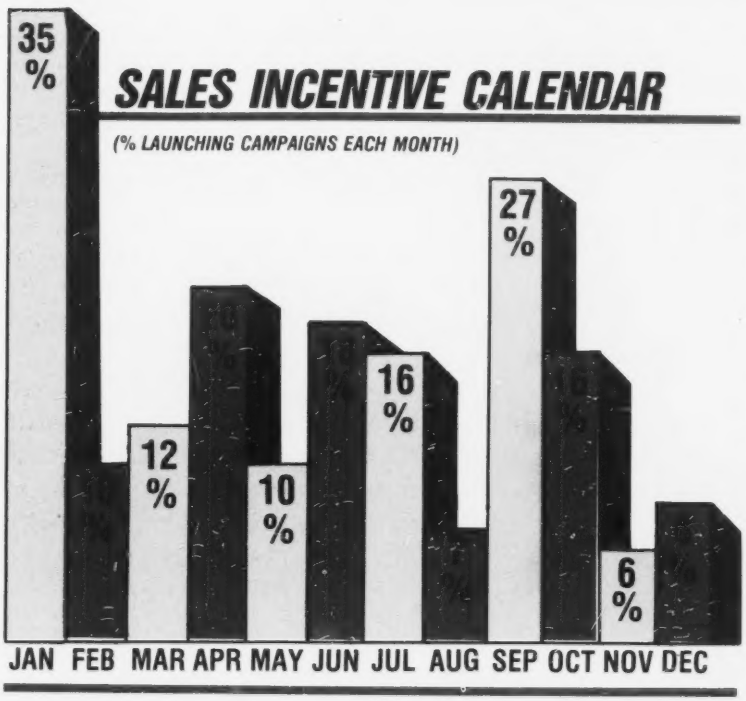

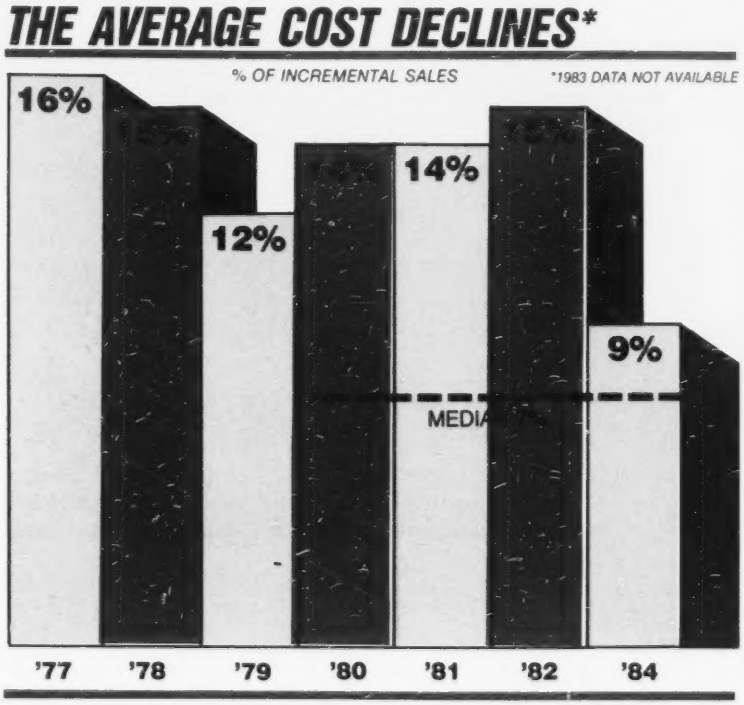

to $1,664—but the median of $1,200 is unchanged.

In most cases the cost of a travel award represents a trip for two persons. We also asked these executives to indicate their per-person expenditures. The average reported was $1,175, with a median of $900 for each person traveling. The difference represents the fact that, in the case of sales incentive travel, a smaller percentage of trip awards includes spouses than with dealer promotions.

Controlling award unit costs in spite of inflation in the past several years has been a factor in holding the line on total program costs in relation to sales achieved. Users have adjusted prize structures to fit available dollars in relation to sales potential, rather than holding fast to specific awards and moving costs upward. They have been less successful in holding down the cost increases in travel than in merchandise.

The present cost average of 9 percent of incremental sales is one apparent result. This compares with substantially higher ratios in recent years. (See chart, left.) It should be noted, however, that the norm in incentive cost, as represented by the *median* cost figures, has not changed in four years. That figure remains at 7 percent. But the average encompasses a considerable number of users whose costs have run much higher than the norm.

The lower cost of sales incentives, relative to incremental sales, appears not to be unique in this area—but is part of a dynamic trend in this year of strong economic movement. Executives reporting in **IM's** survey on dealer incentives (**IM**, April 1984) also showed a low-cost trend, with a 10 percent figure against added sales. In our travel survey (**IM**, July 1984), both sales and dealer programs, taken together, came up with a lowered cost percentage—10.5 percent.

Thus it seems that incentives in general are on a concerted upswing with the economy. ■